

EXPORT AND INVESTMENT SERVICES

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Summary

A central element of many USAID efforts to stimulate outward-oriented growth is policy dialogue to address the anti-export bias of developing countries' policies. USAID also supports programs that provide export services and firm-specific assistance to incipient exporters. Assessment of the Agency's experience has revealed that time-limited subsidized services to exporters can have high payoffs, but that sound macroeconomic policies and at least partial trade reform are preconditions for export success and effective use of subsidized services. The most effective export promotion programs actively involved the private sector and had a strong results orientation. Support services most valued by incipient exporters were those that led to enduring relationships with their future business partners, particularly buyers, investors, and suppliers. Least valued were services provided by government export and investment promotion institutions.

Background

For several decades, USAID has worked on several fronts to stimulate economic growth in developing countries. Rapid growth in exports has come to be seen as a promising means for promoting faster growth and poverty reduction, and trade liberalizing policy reforms are considered to be fundamental in stimulating export growth. Less consensus exists on the value of direct assistance to exporting firms in developing countries, although "export promotion" services—including buyer contracts, information on overseas markets, and technical assistance—have become a standard government service in many developing countries. Some developing countries have sought to attract foreign investors into export sectors, using "investment promotion" services—such as information on the investment climate, site visit support, and local partner identification.

From 1990 to 1993, USAID spent about \$250 million per year financing such assistance to governments and private institutions. To determine whether the Agency's support for export services has been helpful in stimulating outward oriented growth, CDIE undertook an assessment of promotion institutions in 10 countries, selected to reflect a diversity of service approaches and institutional structures. The study surveyed nearly 300 exporters in developing countries and over 90 service providers to establish what services exporters actually used, which were most important to their export success, and which

service providers were most effective. Field studies were carried out in Latin America and the Caribbean (Costa Rica, the Dominican Republic, Guatemala, and Chile) and in Asia (India, Indonesia, Korea, and Thailand); and a desk review was made of Egypt and Morocco programs. The resulting CDIE assessment report, *Export and Investment Services: Do They Work?* (March 1994, PN-AAX-279) is the basis for this summary.

Findings

- ! **Sound macroeconomic policies and partial trade reform are preconditions for export success and effective use of subsidized promotion services.** Support services have negligible impact in hostile policy environments where firms have little incentive to export. However, such services can contribute to export success when realistic exchange rates, macroeconomic stability, and partial trade reform devices (such as duty drawback and export processing zones) shield exporters from the effects of anti-export policies. Support services can be particularly effective during the early stages of an export drive.
- ! **Time-limited subsidized services to exporters can have a high payoff.** Donor-supported interventions that expand exporters' access to services can also speed export growth. A few successful USAID-financed programs had economic rates of return ranging from 12 to 26 percent.
- ! **Private sector commitment and a strong results orientation are critical to effective support services programs.** The more effective export promotion programs encouraged the active involvement and financial commitment of private exporters. They focused on results; they filtered out firms not yet ready to export; they were structured to deliver services effectively; their staff were technically qualified; and they emphasized support services most highly valued by firms new to exporting.
- ! **Support services are most valued by incipient exporters when they lead to enduring relationships with their future business partners,** particularly buyers, investors, and suppliers. At the early stages of an outward-oriented strategy, support services can forge links between new exporters and their business partners, who can best help exporters meet international standards for price, product, and quality. But where a dynamic, competitive service provider market already exists, assistance to export support services has added little to export growth.
- ! **Most government export service providers are ineffective.** They typically focus on the wrong services, lack the trained staff to provide a quality product, and become hamstrung by bureaucratic inflexibility and procedures. Government investment promotion institutions tend to emphasize regulatory over promotional functions.

Recommendations

- ! **Focus first on the policy and regulatory environment for increasing exports.** In developing a rationale for donor intervention, determine if the basics—macroeconomic stability and a realistic exchange rate—are in place. Consider whether the export sector is sufficiently insulated from restrictions in the import regime to support export growth. If these policy preconditions for a successful export strategy do not exist, focus on specific policies and regulatory reforms that would permit significant export growth rather than on the provision of firm-level services.
- ! **Analyze the export support services market.** If partial trade reforms have created a reasonably favorable policy regime for some exporters, then analyze the export support services market. Determine if buyers, foreign partners, domestic private associations, and/or firms are willing and able to respond to the demand for export support services. If the market is too underdeveloped to respond, identify the “gap” and develop the justification for a subsidized program to fill that gap *temporarily*. Support should stimulate, not undermine the development of competing service providers. Once a well-functioning market for export support services exists, there is no longer a rationale for intervention.
- ! **Fill specific gaps in service needs.** Develop service strategies that are designed to fill specific gaps facing particular types of firms. For domestic manufacturing firms, consider services that lead to long-term linkages with potential business partners, such as buyers. For foreign manufacturing firms, consider services that respond to specific decision-making needs. For exporters of nontraditional crops, consider services that enhance their access to technology-intensive and crop-specific assistance.
- ! **Avoid government service providers** for either export or investment promotion, particularly for firm-level technical assistance. Ensure that the institutional structure of a promotional organization fits the type of service to be provided. Although government and membership organizations can be effective in providing standardized services, private organizations are more effective in providing firm-specific, customized services. Allow private service providers the flexibility and resources to respond to service needs.
- ! **Encourage cost-sharing and other mechanisms** to increase the commitment of the private sector and sustainability of export promotion programs. Consider assisting more than one private for-profit or not-for-profit service provider or supporting cost-sharing mechanisms that allow firms to select their own service providers. Do not make complete financial self-sufficiency a goal for export promotion programs; instead, create results-focused projects based on a defensible economic rationale.
- ! **Focus on the bottom line:** achievement of nontraditional export growth and improvements in the support services market. Support performance tracking systems that are integral to the operation of the service provider. Use simplified approaches to assess the costs and benefits for most

promotion projects and undertake detailed ex post cost-benefit analyses selectively, that is, only on major investments of USAID resources.